

Message Text

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ACTION COME-00

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C O N F I D E N T I A L SEOUL 6256

FOR COMMERCE

E.O. 11652 GDS

TAGS: ETRD, KS

SUBJECT: SSANG YONG-JAPANESE DEAL

REF: STATE 181164

1. ROK APPROVAL OF JAPANESE CREDIT FOR \$127 MILLION
SSANG YONG CEMENT EXPANSION WAS PROBABLY INFLUENCED BY
OTHER THAN PURELY ECONOMIC CONSIDERATIONS. AS INDICATED
BY RECENT SUCCESSFUL EXIM-SUPPORTED SALES TO HYUN DAI
AND TONG YANG COMPANIES, AND PROPOSED SALE TO HAN IL,
US CEMENT MACHINERY IS COMPETITIVE IN KOREAN MARKET.
YET, DESPITE ASSURANCES FROM SSANG YONG MANAGEMENT
TO EMBASSY AND US CEMENT MACHINERY LOCAL REPS THAT FULL
CONSIDERATION WOULD BE GIVEN TO US EQUIPMENT, DEAL WITH
JAPANESE WAS QUIETLY ARRANGED BY SSANG YONG AND APPROVED
BY ROKG IN RECORD TIME.

2. AS APPROVED BY FOREIGN INVESTMENT DELIBERATION
COMMITTEE OF EPB, 5.6 MILLION METRIC TON EXPANSION
INVOLVES CREDITS FROM MITSUBISHI AND MARUBENI IIDA
OF \$109.9 MILLION FOR EQUIPMENT AND \$20 MILLION CASH
FOR LOCAL CURRENCY EXPENDITURES. INTEREST RATE IS 7-7.5PCT
ON EQUIPMENT AND 7.5PCT ON CASH LOAN. REPAYMENT ON
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EQUIPMENT LOAN IS 11 YEARS. JAPANESE EXIMBANK GUARANTEE

IS REPUTABLY INVOLVED.

3. IN CALLS SEPT 12 ON ECONOMIC PLANNING BOARD (INDUSTRIAL LOAN DIVISION) AND MINISTRY OF COMMERCE AND INDUSTRY (BUREAU INTERNATIONAL TRADE PROMOTION), COMMERCIAL COUNSELOR EXPRESSED SURPRISE THAT ROKG HAD APPROVED CREDIT FOR JAPANESE CEMENT MACHINERY WHICH EMBASSY UNDERSTOOD WAS MORE EXPENSIVE THAN COMPETING US MACHINERY. POINTED OUT THAT THIS WAS APPARENT DEPARTURE FROM ROKG POLICY OF FAVORING IMPORT OF US EQUIPMENT OVER JAPANESE WHENEVER US EQUIPMENT IS COMPETITIVE.

4. NEXT DAY EPB OFFICIAL CALLED AT EMBASSY WITH EXPLANATION THAT COMPARATIVELY HIGHER COST FOR JAPANESE EQUIPMENT AROSE FROM FACT THAT SSANG YONG CREDIT INCLUDED AUXILIARY EQUIPMENT, INCLUDING ROLLING STOCK, WHICH WAS NOT INCLUDED IN PREVIOUS CREDITS FOR PURCHASE US EQUIPMENT. COMMERCIAL COUNSELOR ADVISED THAT EXPLANATION AND FIGURES SIMPLY DID NOT ADD UP TO PRICE DIFFERENCE, AND COMPARISON ON BASIS OF EQUIPMENT LIST WOULD PROVE US EQUIPMENT FAR CHEAPER. (FULLER OFFER TO SSANG YONG FOR PLANT AND QUARRY EQUIPMENT AT \$70 MILLION WAS \$20 MILLION CHEAPER THAN PUBLISHED JAPANESE PRICE OF \$90 MILLION FOR THESE ITEMS.)

5. SUBSEQUENT CONVERSATIONS WITH FULLER REPS AND SSANG YONG'S COMPETITORS INDICATE NUMBER OF OTHER UNIQUE FEATURES IN SSANG YONG-JAPANESE DEAL. UNUSUALLY LOW INTEREST RATE FOR VERY LARGE CREDIT WOULD BE DIFFICULT TO COMPENSATE SOLELY THROUGH INCREASED EQUIPMENT PRICE AND PROBABLY INDICATES AVAILABILITY OF SPECIAL JAPANESE FUNDING, PERHAPS THROUGH OFFICE OF EXPORT CREDIT FINANCING. IN CONTRAST TO ESTABLISHED ROKG POLICY, CREDIT AS ANNOUNCED PERMITS SSANG YONG TO OBTAIN FOREIGN CASH LOAN (\$20 MILLION) AND "JOINT VENTURE FUND" (\$10 MILLION) AS PART OF DEAL. REGULATIONS ON PERCENTAGE OF CAPITAL AND ASSETS IN RELATION TO OBLIGATIONS INCURRED ALSO APPARENTLY WAIVED TO PERMIT SSANG YONG TO BORROW \$25 MILLION EQUIVALENT FROM LOCAL BANKS TO HELP FINANCE LOCAL COSTS.

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6. UNUSUAL ASPECTS OF SSANG YONG DEAL MUST BE VIEWED AGAINST BACKGROUND OF COINCIDENT RE-EMERGENCE OF S.K. KIM, SSANG YONG CHAIRMAN, AND FORMER RULING PARTY TREASURER, WHO HAS BEEN IN PARTIAL ECLIPSE FOR SEVERAL YEARS. INDICATION OF APPARENT HIGH-LEVEL BACKING OF KIM'S RETURN TO POWER, IS HIS SUCCESSFUL CAMPAIGN TO REPLACE THE LATE PARK YONG-PYUNG AS PRESIDENT OF THE KOREAN CHAMBER OF COMMERCE.

7. IT WOULD BE DIFFICULT, IF NOT IMPOSSIBLE, TO UPSET
SSANG YONG-JAPANESE DEAL WITH ITS OBVIOUSLY STRONG
POLITICAL SUPPORT. HOWEVER, STRONG EMERGENCY OF JAPANESE
IN MAJOR INDUSTRIAL AREA WHERE US WAS BECOMING PRINCIPAL
EQUIPMENT SUPPLIER IS SETBACK FOR HOPES OF BUILDING
STRONG COMPLETITIVE POSITION FOR US EQUIPMENT IN KOREAN
MARKET. FOR THE PRESENT, BEST THAT CAN BE DONE IS TO
LET KOREAN AUTHORITIES KNOW WE ARE DISAPPOINTED AT THIS
OBVIOUS LAPSE IN PROCLAIMED ROKG POLICY TO BUY AMERICAN
WHERE ECONOMICALLY FEASIBLE TO DO SO.
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